

## ECONOMIC RENEWAL: A GRAND STRATEGY FOR THE UNITED STATES

BY

LIEUTENANT COLONEL HOWARD E. AREY  
United States Army

### DISTRIBUTION STATEMENT A:

Approved for Public Release.  
Distribution is Unlimited.

USAWC CLASS OF 2010

This SRP is submitted in partial fulfillment of the requirements of the Master of Strategic Studies Degree. The views expressed in this student academic research paper are those of the author and do not reflect the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.



U.S. Army War College, Carlisle Barracks, PA 17013-5050

The U.S. Army War College is accredited by the Commission on Higher Education of the Middle State Association of Colleges and Schools, 3624 Market Street, Philadelphia, PA 19104, (215) 662-5606. The Commission on Higher Education is an institutional accrediting agency recognized by the U.S. Secretary of Education and the Council for Higher Education Accreditation.

REPORT DOCUMENTATION PAGE				Form Approved OMB No. 0704-0188	
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing this collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to Department of Defense, Washington Headquarters Services, Directorate for Information Operations and Reports (0704-0188), 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to any penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number. <b>PLEASE DO NOT RETURN YOUR FORM TO THE ABOVE ADDRESS.</b>					
1. REPORT DATE (DD-MM-YYYY) 24-03-2010		2. REPORT TYPE Strategy Research Project		3. DATES COVERED (From - To)	
4. TITLE AND SUBTITLE  Economic Renewal: A Grand Strategy for the United States				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)  Lieutenant Colonel Howard E. Arey				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)  Dr. Robin Dorff Strategic Studies Institute				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES) U.S. Army War College 122 Forbes Avenue Carlisle, PA 17013				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION / AVAILABILITY STATEMENT Distribution A: Unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT The nation's continuing deficits and increasing debt will lead to its declining economic strength if not checked. Economic power is the foundation for the other elements of national power so economic problems degrade military power, erode America's international image, and potentially may lead to declining faith in democratization efforts abroad as developing nations find free market capitalism less attractive. The U.S. should adopt a grand strategy of "economic renewal" to maintain its economic power. By taking steps to reduce its debt and leading an international effort to replace the dollar as the global currency, the United States can focus on rebuilding its economic power and maintaining its role as a global leader. Supporting military, diplomatic, and informational strategies will ensure the world sees these changes as the actions of a global power leading visionary change instead of a declining power trying to hold onto a fading empire. Changes led by the U.S. are essential for this country to maintain its power as well as to shine as a beacon of free market and democratic principles around the world.					
15. SUBJECT TERMS Debt, Budget Deficit, Capitalism					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT  UNLIMITED	18. NUMBER OF PAGES  30	19a. NAME OF RESPONSIBLE PERSON
a. REPORT UNCLASSIFIED	b. ABSTRACT UNCLASSIFIED	c. THIS PAGE UNCLASSIFIED			19b. TELEPHONE NUMBER (include area code)



# USAWC STRATEGY RESEARCH PROJECT

## **ECONOMIC RENEWAL: A GRAND STRATEGY FOR THE UNITED STATES**

by

Lieutenant Colonel Howard E. Arey  
United States Army

Dr. Robin Dorff  
Project Adviser

This SRP is submitted in partial fulfillment of the requirements of the Master of Strategic Studies Degree. The U.S. Army War College is accredited by the Commission on Higher Education of the Middle States Association of Colleges and Schools, 3624 Market Street, Philadelphia, PA 19104, (215) 662-5606. The Commission on Higher Education is an institutional accrediting agency recognized by the U.S. Secretary of Education and the Council for Higher Education Accreditation.

The views expressed in this student academic research paper are those of the author and do not reflect the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.

U.S. Army War College  
CARLISLE BARRACKS, PENNSYLVANIA 17013



## **ABSTRACT**

AUTHOR: Lieutenant Colonel Howard E. Arey  
TITLE: Economic Renewal: A Grand Strategy for the United States  
FORMAT: Strategy Research Project  
DATE: 24 March 2010      WORD COUNT: 5,902      PAGES: 30  
KEY TERMS: Debt, Budget Deficit, Capitalism  
CLASSIFICATION: Unclassified

The nation's continuing deficits and increasing debt will lead to its declining economic strength if not checked. Economic power is the foundation for the other elements of national power so economic problems degrade military power, erode America's international image, and potentially may lead to declining faith in democratization efforts abroad as developing nations find free market capitalism less attractive. The U.S. should adopt a grand strategy of "economic renewal" to maintain its economic power. By taking steps to reduce its debt and leading an international effort to replace the dollar as the global currency, the United States can focus on rebuilding its economic power and maintaining its role as a global leader. Supporting military, diplomatic, and informational strategies will ensure the world sees these changes as the actions of a global power leading visionary change instead of a declining power trying to hold onto a fading empire. Changes led by the U.S. are essential for this country to maintain its power as well as to shine as a beacon of free market and democratic principles around the world.





## ECONOMIC RENEWAL: A GRAND STRATEGY FOR THE UNITED STATES

As goes the U.S. economy, so goes U.S. military strength and strategic influence.

—Global Strategic Assessment 2009<sup>1</sup>

The national debt of the United States, increasing with anticipated budget deficits for the next decade, is the single greatest threat to the country's security and its role as a democratic model for the world. At worst, the debt will sow the seeds for global economic turmoil as the world community recognizes that its only superpower and holder of the "global currency" may eventually be unable to repay its debt obligations. The more likely case is that the eroding strength of U.S. economic power will lead to its decline in the global order and a lesser desire by other nations to "be like America." This foretells a possible weakening of support for free market capitalism that in the longer term can remove a necessary foundation for the emergence and growth of democratic institutions. This may ultimately be the most perilous danger, as the decline in advocacy for free market and democratic principles may lead to a new world order where centralized authoritarian governments like China shine brighter for the world's developing nations.

There is a narrow window for the United States to address this threat, for "once economic rot sets in, it is historically very difficult to reverse."<sup>2</sup> Although some economists downplay the debt problem, recent world events such as the credit rating downgrades for Greece and Mexico, and the Dubai request for debt restructuring, have shown that "inevitable surprises" emerge quickly. This decade is critically important for the country because as debt service consumes a growing percentage of U.S. discretionary spending, the rise of China on the world stage presents an alternative to

the American model.<sup>3</sup> The U.S. must act now to adopt a grand strategy of “economic renewal” that not only sustains the economic superiority of the U.S. but maintains this nation as the clearest exemplar of free market ideas and democratic principles.

President Obama’s speech at West Point highlighted the importance of this economic foundation: “In the end, our security and leadership does [sic] not come solely from the strength of our arms.”<sup>4</sup> To sustain this strength, the country must act to reduce its debt and restructure the role of the U.S. dollar in the international monetary system to set conditions for the nation’s economy to thrive.

### The Magnitude of Today’s Debt

Today, the nation has in excess of \$12 trillion in debt, which is 90% of the country’s GDP, with deficits forecast through 2019.<sup>5</sup> This latest percentage tells only a small part of the story. The debt was 61% of the GDP ten years ago but in 2011, the debt will surpass 100% of the GDP and continue to rise, eventually reaching over \$23 trillion by 2019.<sup>6</sup> But debt can be refinanced, if creditors continue to believe the United States is a trustworthy borrower that will meet its debt obligations. Therein lies the developing problem: each year, interest payments alone will consume an ever-expanding portion of the federal budget, rising from \$252.8 billion in 2008 to over \$460 billion by 2014.<sup>7</sup> The percentage of the budget directed to interest payments will rise a full three percentage points from 8.5% to 11.5%. By comparison, this increase in interest payments is more than the budgets for International Affairs, Transportation, Agriculture, and General Science and Technology *combined*.<sup>8</sup> The effect on the federal budget will be immense. Locked between entitlement and discretionary spending, the nation’s leaders will need to make painful choices on critical issues if they are to sustain international faith in the ability of the United States to repay its debts.

The immediacy of our debt service obligations further exacerbates this. The recent need for stimulus funding has pushed the level of short-term notes, historically just at 25% of our overall debt, to over 36%.<sup>9</sup> Over \$3.5 trillion is due within the next three years so the Treasury Department is converting this short-term debt into longer-term bonds while interest rates are low. Securing these loans requires international faith that the country has the ability to repay the loans. But recently, the auctions for these conversions was weak, prompting even higher rates in order to sell the bonds.<sup>10</sup> These higher interest rates will further exacerbate the year-to-year cuts in discretionary budget programming, and as more of the budget is diverted to interest payments, less can go to other programs.

Some economists, such as Nobel laureate Paul Krugman, posit that the nation has been through periods of large national debt before and today's current level is not insurmountable.<sup>11</sup> Indeed, the period following World War II demonstrated this, as debt levels were then at 108% of the nation's GDP.<sup>12</sup> According to this argument, if the country could recover from that debt level after a national emergency, then certainly it can do it from today's lower levels. Unfortunately, the situation today is substantially different from that period; different enough to mask the serious troubles that lie ahead for the United States.

Near the conclusion of World War II, the world looked to the United States for leadership, not only in military defense, but in economic affairs. The U.S. economy was immensely larger than any other and with its new central role as World War II concluded, the U.S. accepted the mantle of economic leadership as well as the role of the dollar as the defacto global currency. Today's global economic environment is

vastly different as rapidly rising China, Brazil, and India become substantial economic powers and the European Union gains unified strength. The great global recession that started in 2008, and is arguably coming to an end just now, has illuminated the danger of highly leveraged consumption and the speed at which resulting values can unravel. The recent announcement by Dubai that it needed to restructure its debt obligations sent shockwaves through the interconnected global financial markets. Nations like Iceland and Ireland, only recently regarded as fast risers in the modern global marketplace, have quickly receded with the further spread of financial anxiety. The current debt crisis centered on Greece is still playing out on the world stage. While the U.S. clearly remains the leading economy, the difference between 1944's Bretton Woods environment and today is that there are numerous vibrant, competing economies other than the United States which offer new choices for financial investment. Unfortunately for the U.S., these choices, especially as they relate to the role of the U.S. dollar as the global currency, will have adverse effects on its role on the world stage unless properly managed.

As the U.S. accumulated debt, the value of the U.S. dollar declined.<sup>13</sup> This has alarmed countries such as China. Holding nearly \$800 billion in U.S. Treasury obligations, that country now fears that its holdings are losing long-term value.<sup>14</sup> While much has been made about China and the U.S. sharing a "mutually assured destruction" arrangement where neither nation can really force the other to change its economic behavior because of the devastating results, the reality is that there are real efforts underway to move away from the U.S. dollar as the world currency.<sup>15</sup> In February, 2010 China sold over \$34 billion in U.S. Treasury holdings. In October, 2009

a British newspaper reported that a group that included China, Saudi Arabia, Russia, Japan, France and other oil-producing nations met secretly to consider repricing oil with a currency other than the U.S. dollar, as the declining dollar was hindering oil pricing on the global market.<sup>16</sup> Separately, a leader from the United Nations stated the need to look at a new global currency other than the dollar.<sup>17</sup> Even Australian newspapers have railed against the declining dollar and its global drain on the world economy.<sup>18</sup> These are not just casual ideas; instead they are part of a clear recognition that the economic power of the United States, and its declining dollar, are not serving the global currency needs. The implications of an *uncontrolled* move away from the dollar as the global currency are vast, and will be incredibly damaging not only to the economy but to overall national power unless managed by the United States as part of a comprehensive grand strategy.

#### Implications of Economic Decline

One casualty of a serious economic decline will be U.S. military power. With a budget over \$692 billion and now consuming one-quarter of all discretionary spending, the Department of Defense is the single largest consumer of federal dollars and thus will be the easiest source to free funds to service the debt.<sup>19</sup> To be sure, the DoD budget has increased dramatically since the attacks of 9/11, with the defense component of the discretionary budget increasing while all other domestic categories have shrunk.<sup>20</sup> But decreases in the defense budget will result in long-term degradations of important capabilities. With a multi-year transition out of Iraq, and a newly adopted surge into Afghanistan, any decreases in the defense budget will likely have to come from future-oriented appropriations not directly supporting the current warfight. These include procurement (over \$125B in FY09), research, development, test and evaluation (RDTE,

\$68.6B in FY09), and Military Construction at \$10.2B.<sup>21</sup> Early signs of potential decreases include the Administration's delay or cancellation of weapons systems such as the Army's Future Combat System, the Air Force's Transformational Satellite and the Navy's Zumwalt-class destroyer.<sup>22</sup> Since cuts cannot be made to the current force while two conflicts are ongoing, there is little ability to divert increasingly expensive personnel funding to pay for modernization that maintains U.S. military superiority over rising powers such as China.<sup>23</sup> If these cuts are matched with further cancellations of cutting-edge technology programs, there is the potential for a gradual decline in the relative technological superiority of the U.S. military.

This potential period of relative decline in military power will unfortunately coincide with the declining U.S. image abroad. Just when the favorable image of America will be critically important to offset declining military strength, it will wane. This loss of prestige is not based on declining military strength, although it may contribute to it, or even accelerate it. This decline in image is already widely viewable, extending beyond Europe and the Middle East but throughout the world including Latin America and Asia.<sup>24</sup> The image of the country abroad, its "soft" power, has been a major source of influence throughout the world.<sup>25</sup> From adoption of western culture and free market principles, and respect for individual rights, the desire of other nations to emulate the U.S. has been a powerful force. Unfortunately, the economic downturn, combined with the continuing wars in Afghanistan and Iraq, and then communicated across an increasingly interconnected digital world, has reduced this desire. Even with the improved international favorability of President Barack Obama, today's poor image of free-market capitalism will have severe implications for the U.S. image.

A decline in military strength may have been partially offset by an increase in the positive international perception of the U.S. Unfortunately, this will not be the case as the same economic weakening that induces the military decline will be the source of the decline in the U.S. image. This simultaneous loss of military and soft power may lead to an even more precarious problem: loss of long-term support for democratic principles. The economic decline that results from the increasing debt will be a serious blow to the world's perception of free market principles. The United States has been the model of free market capitalism for more than sixty years. The forces of the free market have unleashed the economic potential of the country, and steadily-increasing productivity has put it on a path of mostly sustained growth. A declining United States economy will affect the whole world economy and rightfully or not, the situation will put the United States "model of free market capitalism under a cloud."<sup>26</sup> While the current economic situation is largely attributed to excesses in the housing market and insufficient financial regulation, an economic collapse caused by excessive U.S. national debt will result in an even worse perception of the U.S. A future debt collapse may be attributed to the inability of a democratic society to police its free market economy and instill the necessary discipline to maintain a sustainable level of national spending. The perception will be clear: free market-based democracies are not solid foundations for long-term economic viability. The United States will not be the only democratic failure for sure; the United Kingdom, Greece, and Iceland are other western democracies that have the potential to initiate sovereign debt crises. These failures may be the triggers that cause greater inspection of U.S. economic positions that could lead to even larger problems. No matter the chronology, a failure of the financial system will be attributed

largely to the United States and with this failure may come the most significant setback to democratic principles.

The failures of democracies to manage their economies will be viewed against the current relative success of China and its rapid economic gains, confronting developing nations with a choice between democracy and authoritarian, centrally managed government. In the short term, the centrally-managed nation without the burden of the “democracy tax” may appear ideal, potentially turning these developing nations away from the free market principles that often precede democratic principles and institutions.<sup>27</sup> The 2006 National Security Strategy best states the strong link between free markets and free societies: “Economic freedom is a moral imperative. The liberty to create and build or to buy, sell, and own property is fundamental to human nature and foundational to a free society.”<sup>28</sup> Any hindrance to the growth of democratic ideals around the world would be a tremendous loss.

There is clear evidence that the relative decline of U.S. economic power has detracted from its leadership role. Still, when there is a global crisis, the U.S. remains the single nation that the world looks to for leadership. It is this enduring faith in the U.S. that gives it the opportunity to renew its economic strength not just for its own sake, but to establish the path for future global economic and democratic expansion.

### A New Grand Strategy

The United States is now at the point at which it must implement a wholly new grand strategy that prioritizes economic vitality – the “large end” of a new national effort.<sup>29</sup> Despite the gravity of the ongoing wars or the current economic difficulties, the nation is positioned to adopt a grand strategy of “economic renewal.” Making the adjustment to a strategy so inwardly focused will not be easy as the inertia of the



nation's existing, externally-focused grand strategy, unwritten and vague yet remarkably consistent over the past nine Administrations, is supported by international expectations, defended by a domestic bureaucracy, and argued over by a firmly divided American public.<sup>30</sup> Change will not be easy as "grand strategy requires a grand threat."<sup>31</sup> But as argued here, a real threat to the United States economy does exist and defeating it will require the coordinated focus of all national means to ensure the economic foundations of the nation are solid in the decades ahead. John Lewis Gaddis of Yale writes, "*Grand strategy is...about relating all of the means at your disposal to the ends you have in view.*"<sup>32</sup> A grand strategy to sustain U.S. economic primacy will require not just new economic policy, but a fresh view of the positive outcome that can result from the integration of that economic policy with simultaneous actions in defense, diplomacy, and informational strategy.

*The Dollar as the Global Reserve.* The central economic policies of an "economic renewal" grand strategy are the transition away from the U.S. dollar as the global currency combined with the implementation of a requirement for a balanced federal budget. While the most dramatic symptom of the economic problem in the U.S is a soaring deficit that is consuming budget resources, the root cause of the problem is much deeper. The role of the U.S. dollar resulting from the Bretton Woods agreements, while a necessary stabilizing force in the concluding days of World War II, has in fact led to the very debt problem we have today. Current academic discussion is recognizing the problems first raised by Robert Triffin, who in the 1950s recognized the dilemma of a single national currency being the global currency. He stated, in what is now referred to as "Triffin's Dilemma," that unless the U.S. continued to run deficits and a negative

balance of trade, dollars necessary for global growth would not be available. Ultimately, this same deficit spending necessary for the global good would undermine the value of the dollar and reduce global faith in its ability to retain value. Testifying in 1960, Triffin stated, "*A fundamental reform of the international monetary system has long been overdue. Its necessity and urgency are further highlighted today by the imminent threat to the once mighty U.S. dollar.*"<sup>33</sup> These same words are perhaps even more relevant in 2010.

Accumulating vast reserves as a result of high exports to the U.S and an overvalued dollar, the developing nations invested their earned money in U.S. treasury bonds. These large foreign purchases facilitated, even encouraged, this nation's increasing debt by keeping U.S. borrowing costs down, exacerbating further deficit spending and domestic overconsumption. The U.S. had access to "easy money" and was in a vicious cycle. This further increased trade imbalances that enabled the global exporters to invest even more newly earned U.S. dollars. A grand strategy that moves away from the dollar serving as the defacto global currency will help stop this cycle.

The United States must lead this change. Citing past global efforts to reform the economic architecture, James Boughton writes that "the central lesson that emerges from these efforts is that successful reform in response to a crisis requires three ingredients: effective and legitimate leadership combined with inclusive participation; clearly stated and broadly shared goals; and a realistic road map for reaching those goals."<sup>34</sup> Similarly, a change from the dollar will not happen without U.S. leadership, wide-ranging global involvement, and a long-term effort that distributes broad benefits

while reducing short-term shocks to the financial system. This “economic renewal” grand strategy addresses these imperatives.

The calls to move away from the dollar are reemerging. The Chairman of the People’s Bank of China cited Triffin’s Dilemma as he called for a reform of the global currency system.<sup>35</sup> As noted earlier, the United Nations also made a call for currency reform and the positive global benefits it would entail. Writing in Foreign Affairs, Fred Bergsten also argues that the role of the dollar as the global currency has facilitated trade and budget deficits but that without reform, the U.S. may face a “hard landing.”<sup>36</sup> Instead of resisting this major change, the U.S. should recognize the irresistible forces at play and lead the adjustment on terms beneficial to it. There are numerous options for shifting away from the dollar, including “Special Drawing Rights”, “baskets” of currencies, and even regional approaches.<sup>37</sup> While the precise details are beyond the scope of this paper, the important point is that the U.S. is in a position to lead the transition from the dollar on its own terms. U.S. sponsorship of a deliberate plan is essential to prevent the collapse of the dollar, while ensuring the American public that such a move is in the nation’s long-term interests.

*A Balanced Budget Amendment.* A move away from the dollar is but one part of the U.S. economic strategy. Consistent deficit spending, even if supported by ample foreign purchases of treasury bonds, cannot be maintained in the long term if the U.S. is to lead an effort away from the dollar as the global currency. Since foreign investors will now have other options for investing their funds, the U.S. will likely not be able to afford further deficit spending because of the higher interest rates that will be required to attract foreign capital. Without the benefit of having the global reserve currency, the

costs of long-term deficit spending will simply be prohibitive. This means that as part of any U.S.-led move away from the dollar, the U.S. should simultaneously put in place strict controls on its budget.

This will not come easily as deficits are forecast through 2019 according to White House estimates. As part of the recent decision by the Congress to raise the national debt ceiling, the President is expected to create a “debt commission” to help assess a path ahead to resolve the impending gaps.<sup>38</sup> Unfortunately, the role of an extra-legislative commission convening prior to either mid-term congressional elections or prior to the next presidential election cycle will likely bring political gamesmanship instead of real results. Just as previous Congressional efforts like the “Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act of 1985” and “pay-go” (Budget Enforcement Act of 1990) failed to control federal spending, the likelihood of future executive and legislative action being successful is low. Another possibility, and one with a more constitutionally-grounded basis, is a balanced budget amendment. This would be more appropriate as part of a comprehensive grand strategy for several reasons. First, it would signal the gravity and seriousness with which the U.S. government views the deficit. This message would be especially important for the global community to show that concurrent with a move away from the dollar as the global currency, the U.S. was implementing strict controls that would help maintain the current value of the dollar. This signaling would be crucially important to uphold the dollar’s value and prevent its freefall as a new global currency or “basket of currencies” is introduced. Second, a properly worded amendment, ratified by the

states, would contain stricter controls that would limit the ability of Congress to “work around” the law as it did with earlier efforts created wholly within the Congress.

#### Supporting Diplomatic, Military, and Informational Strategies

Diplomatic, military, and informational strategies that support diversification from the dollar and a balanced budget amendment will be equally important to the nation’s overall success. A comprehensive grand strategy should include Security Council reform as a means to ensure the most significant economically developing powers have a proper role in securing the global order. Just as the U.S. must lead the international effort to move away from the dollar, it will have to lead any effort to reform and reorganize the Security Council.

There is a direct relationship between economic and security matters, so tackling Security Council reform, with membership reform as a minimum, is necessary to clarify the economic/security relationship and ensure developing economic powers understand that not only will they have new economic responsibilities, but they must also assume leadership responsibilities for international security issues. While there is some consternation over such change, including within the U.S., there are growing calls for reform that will ensure greater participation within the Council.<sup>39</sup> The 2004 U.N. Report, *Report of the High-level Panel on Threats, Challenges and Change*, put forth two models for council membership change.<sup>40</sup> Both models recommend regional representation through a mix of additional permanent as well as non-renewable, two-year memberships. Likely aware of the challenges involved with the perception of taking power away from current permanent members, neither model recommended removal of any of the five permanent members nor any additional veto powers for the new permanent powers.

No matter the final details, these models for Security Council membership are important because they acknowledge the rise of new economies and their correspondingly growing influence and military power. More importantly, contemporary Security Council membership reinforces the interconnectedness of the world economy and the defense of the global commons. It will require U.S. leadership to change the membership of the Security Council because even if there is resistance to the current structure from some developing nations, the Council's current structure does provide a mostly satisfactory level of global security. U.S. sponsorship of Security Council reform will demonstrate, just as a balanced budget amendment will, that the U.S. understands the global changes that are occurring and is prepared to manage those inevitable changes for the global good.

*Military Priorities: Deter Chinese Reactions.* Although changes in the global currency and Security Council reform are intended to resolve current tensions within the world community, the U.S. military must remain postured for the potential conflicts that could result from such far-reaching change. As the U.S. necessarily restrains its federal spending, defense spending will also need to decline. Therefore, correct prioritization of the remaining defense resources is essential to protect U.S. interests.

This prioritization must address the potential response from China, the nation that is most likely to calculate that a new U.S. strategy could interfere with its economic growth and internal stability. The U.S. military must continue to modernize its capacity for global reach in view of current Chinese strengthening of its power projection capacity, procurement of Anti- Access/Area Denial (A2/AD) systems, and its potential military responses to a new U.S. grand strategy.<sup>41</sup> Although still Army-centric and

heavily focused on Taiwan, the Chinese military is improving its ability to project both air and sea power to support its interests in energy and sea lanes in the East and South China Seas.<sup>42</sup> Much is made of the Chinese military presence in Africa, but this is on a much lower scale than its capacity building in the Asian region. What should not be missed, however, is the core mission of the People's Liberation Army:

Providing an important source of strength for consolidating the ruling position of the CCP, *providing a solid security guarantee for sustaining the important period of strategic opportunity for national development*, providing a strong strategic support for safeguarding national interests, and playing a major role in maintaining world peace and promoting common development [emphasis added].<sup>43</sup>

Given this core mission, it is not inconceivable that the Chinese military will be called into action as the Chinese government recognizes the implications of the new U.S. grand strategy for its national development strategy. China could perceive that it has the most to lose from a global currency change. Holding more than \$800 billion in U.S. bonds, it may assess that a move away from the “global” dollar has the potential to decrease the value of its holdings, interfere with its export surplus, and reduce domestic employment. A ratified balanced budget amendment would further reinforce that the U.S. intended to follow through with President Obama's desire to change the U.S. from a “consumer of last resort” for the world to a more export-focused economy. This will directly challenge China's immediate interests.<sup>44</sup> These integrated economic strategies, combined with Security Council reform that has the potential to give India and up to two African countries significant clout, may be perceived by the Chinese government as disruptive to its security and stability.

U.S. air, naval, and space power must remain technologically superior relative to China to guarantee our capacity to respond to Chinese reactions to the new grand

strategy. Given Chinese procurement of anti-satellite and cyber-attack capabilities, the U.S. must prioritize investments in countering technologies and ensure our allies in the region remain aware of the security they gain from our possession of these technologies.<sup>45</sup> Less necessary, and thus lowest on the budget priority, is expeditionary land power designed for low intensity conflict. The U.S. Army must be prepared to downsize as part of budget reductions and it can do this by getting away from its current focus on manpower-heavy counterinsurgency missions. The U.S. should inform its strategic partners that with its leadership of the transition from the dollar and Security Council membership reform, it expects their military contributions and leadership for regional security to increase. Instead of directly fighting low intensity conflicts, the U.S. should help other nations build their capacity for these struggles. The recent initiative to create “Advise and Assist Brigades”, lauded by Secretary Gates, is the right move to help others meet their own security needs instead of the U.S. Army doing it for them.<sup>46</sup>

This “security sharing” will enable the U.S. to prioritize its declining resources toward high-intensity capabilities. It is this high-intensity Army capability, matched with persistently superior air, space, and naval power, that will form the overarching security umbrella for U.S. friends around the world and deter any threatening Chinese actions that may result from economic change.

*Informational Strategy – From a Position of Strength, not Weakness.* An “economic renewal” strategy will require a multi-faceted informational campaign. Internationally, the U.S. must send the message that it is undertaking this economic renewal to retain its position as the world’s leading economic power. Building on



President Obama's recent reaffirmations that the U.S. has historically been a force for good in the world, the strategic message must be clear that the U.S. recognizes that its economic power is the foundation for its other strengths, and that by undertaking this new strategy, it can remain as a military power and stabilizing force on the world scene. Although there will be long-term global benefits, the message should not be that the U.S. is making this move in the spirit of international cooperation and generosity because this will be transparent to the international community. If the message is perceived by other nations as an early indicator of U.S. economic decline, the abrupt loss of confidence in the dollar will have severe consequences both domestically and internationally. However, if the consistent message is that this is forward-looking, visionary change, then the world reaction may instead be quite positive, acknowledging the entrepreneurial spirit and initiative that made the U.S. the leader it is today.

Just as there can be no apologies for the need to remain an economic and military leader, there must not be any retreat from U.S. diplomatic leadership, especially for its defense of democratic principles and respect for individual liberties. As China exhibits a "sense of triumphalism" stemming from "a sense in Beijing that the global economic crisis proves the superiority of China's controlled economy and its authoritarian political system," the U.S. must reinforce the importance of individual freedom and the link between free market societies and democracies.<sup>47</sup> Today, there is evidence of declining U.S. support for promoting democracy abroad. Both the Secretary of State as well as the President have been criticized for pushing democracy promotion to the back shelf.<sup>48</sup> Whether this is an attempt to distance the current Administration from the Bush Administration's strongly voiced support for democracy or

a desire to simply soften the image of a pontificating America, the shift in rhetoric is noticed on the world stage. Even against the recent backdrop of economic problems, the U.S. must stir the desire for political representation in the growing middle classes of developing nations.

Domestically, it will be important for the President to tell the American public why these major changes are essential to the well being of the nation. There will be an emotional reaction from the American people (and their elected representatives) to the idea of moving away from the U.S. dollar as the global reserve currency.<sup>49</sup> At first, the idea may be seen as the surest sign of economic decay. And while there is some truth that economic decline has led to this necessary step, the American public must understand that this is an essential action to restore America's position of strength. Holding onto the past role of the dollar because of faulty ideas that the dollar's historical role is what made the nation great will not be beneficial for all of the reasons that led to the current debt crisis. Instead, the American people must understand that the dollar fulfills this global function because *the nation* is great, and it must now change to help the U.S. maintain not just its economic position, but its global leadership. A similar message should be delivered to the American people to gain support for the balanced budget amendment: it is critical not only to ensure that the nation lives within its own means but to send an important global message that will ease the transition from the dollar and prevent a catastrophic loss in its value.

These principal international and domestic messages will set the stage for the supporting strategic communications that will occur around the world via the Departments of State, Treasury, and Defense. The changes that come with this grand

strategy will require tailored messages to friends to ensure they are perceived to be in each nation's interests, if not in the short term, then at least in the long term. For foes, the reinforcing message will be that the U.S. is acting to maintain its preeminent role as a global power, ready to continue its leadership and promotion of democracy.

#### Feasibility – How Can Such Drastic Change Occur?

Any new grand strategy could be the easy victim of criticism that it may “brief well” but could never be implemented. Indeed, an “economic renewal” strategy may be the easiest target for such criticism because the components of the overall strategy already have their detractors. Many articles have been written on the need to move away from the dollar, yet nearly every author on the subject concedes that the reason why the dollar remains is because no other currency is ready to supplant the dollar. Critics of balanced budget requirements simply point to states like California that now have balanced budget requirements but still cannot enact fiscal discipline. And from those who are skeptical of any changes in Security Council membership, there is always the persistent doubt that current veto members would dilute their own power. A balanced budget requirement by itself would not only would be met with stiff resistance from the current Democratic Party-controlled Congress, but it could cause ripples across the global economy if there appeared to be the potential for a rapid withdrawal of government-stimulus spending. Without serious spending reform, any new balanced budget requirement or Amendment will not have credibility. But defense spending reductions during a period of two, manpower-intensive wars in Iraq and Afghanistan just does not seem to be credible, unless one considers the potential for new Security Council members to be new contributors to overall military security. Individually, these criticisms have merit. The lesson from this is that only when the combination of

individual strategies is implemented as part of an overall grand strategy, is it possible to see the necessity and feasibility of any individual policy. John Gaddis' supposition that Grand Strategy "requires the ability to see how all of the parts of a problem relate to one another, and therefore to the whole thing" implies that solving the "whole thing" requires a serious, contemplative set of ideas where the consequences of one policy necessarily interact, affect, and enhance the positive impact of other policies.<sup>50</sup>

This momentous process of change will not start except through the actions of the United States. But even within the United States, the individual actions of the various departments and agencies could never initiate any one of the policies described here. Only when the President affirms the "large end" of sustained economic power can the national means be organized toward this single goal. This interrelationship of ends, ways, and means, a *grand* strategy, is the visionary guidepost toward which today's national leaders must steer. For just as George Kennan's grand strategy of containment served as the larger goal for many decades, the achievement of sustained economic power will require the work of many follow-on Administrations and Congresses. Fortunately the leadership and actions initiated today will signal to the world the seriousness of the United States commitment to its standing in the world order, and more importantly, the promise that America will "secure the Blessings of Liberty to ourselves and our Posterity."<sup>51</sup>

## Endnotes

<sup>1</sup> Patrick Cronin, ed., *Global Strategic Assessment 2009, America's Security Role in a Changing World* (Washington D.C.: National Defense University Press, 2009) , 24.

<sup>2</sup> Ibid.,19.

<sup>3</sup> Robert Niblett, ed., *Ready to Lead? Rethinking America's Role in a Changed World*, (London: Royal Institute of International Affairs), 2009, 19.

<sup>4</sup> President Barack Obama, "Way Forward in Afghanistan and Pakistan," speech, U.S. Military Academy, West Point, NY, December 1, 2009.

<sup>5</sup> The debt was at \$11.898 billion as of September 30, 2009; this includes appx \$7.5B held by the public and \$4.3B borrowed from within the government (from Social Security receipts). U.S. Government Accountability Office, "Report to the Secretary of the Treasury, Financial Audit: Bureau of the Public Debt's Fiscal Years 2009 and 2008, Schedules of Federal Debt," November 2009, [http://www.treasurydirect.gov/govt/reports/pd/feddebt/feddebt\\_ann2009.pdf](http://www.treasurydirect.gov/govt/reports/pd/feddebt/feddebt_ann2009.pdf), 3, (accessed December 23, 2009). Deficits forecast through 2019 according to Office of Management and Budget, "Analytical Perspectives," <http://www.whitehouse.gov/omb/budget/fy2010/assets/assumptions.pdf>, 181 (accessed December 29, 2009).

<sup>6</sup> Office of Management and Budget, "Table 7.1, Federal Debt at the End of the Year: 1940-2014," <http://www.whitehouse.gov/omb/budget/Historicals/>, (accessed December 29<sup>th</sup>, 2009).

<sup>7</sup> Government Printing Office, "Budget of the United States Government: Historical Tables Fiscal Year 2010, Table 3.1 — Outlays by Superfunction and Function: 1940–2014," <http://www.gpoaccess.gov/usbudget/fy10/hist.html> (accessed Dec 20<sup>th</sup>, 2009).

<sup>8</sup> Planned budgets in 2014 are: International Affairs – \$64.5B, Transportation - \$79.3B, Agriculture - \$19.8B, General Sciences, Space, Technology - \$34.6B. From Government Printing Office, "The Budget of the United States Government: Historical Tables Fiscal Year 2010, Table 3.1 — Outlays by Superfunction and Function: 1940–2014," <http://www.gpoaccess.gov/usbudget/fy10/hist.html> (accessed Dec 20<sup>th</sup>, 2009).

<sup>9</sup> Edmund L. Andrews, "Wave of Debt Payments facing U.S. Government," New York Times.com, November 22, 2009, <http://www.nytimes.com/2009/11/23/business/23rates.html?pagewanted=all> (accessed December 6, 2009).

<sup>10</sup> John Parry, "Weak US 10-year Treasury Note Auction Exposes Cracks", Reuters, August 12<sup>th</sup>, 2009, <http://www.reuters.com/article/idUSN1249504320090812> (accessed Jan 5<sup>th</sup>, 2010).

<sup>11</sup> Paul Krugman, "How Big is \$9 trillion?," New York Times.com, August 23, 2009, <http://krugman.blogs.nytimes.com/2009/08/23/how-big-is-9-trillion/> (accessed Dec 26<sup>th</sup>, 2009).

<sup>12</sup> Joshua Aizenman and Nancy Marion, "Using Inflation to Erode the US Public Debt," <http://www.voxeu.org/index.php?q=node/4413> (accessed Dec 26, 2009).

<sup>13</sup> Cronin, *Global Strategic Assessment 2009, America's Security Role in a Changing World*, 19, shows declines of 56% against the euro, 30% against the Canadian dollar, and 24% against the British pound.

<sup>14</sup> China held approximately \$798.9B as of October, 2009, from U.S. Department of Treasury, "Major Foreign Holders of Treasury Securities," <http://www.treas.gov/tic/mfh.txt> (accessed Jan 5, 2010).

<sup>15</sup> World Bank, "The Sino-American Economy: Mutually Assured Destruction," Sept 17, 2009, <http://crisistalk.worldbank.org/2009/09/the-sinoamerican-economy-mutually-assured-destruction.html> (accessed January 2, 2010).

<sup>16</sup> Robert Fisk, "The Demise of the Dollar," The Independent, October 6, 2009, <http://www.independent.co.uk/news/business/news/the-demise-of-the-dollar-1798175.html> (accessed Oct 10, 2009).

<sup>17</sup> United Nations Under-Secretary for Economic and Social Affairs to the International Monetary and Financial Committee, statement by Mr. Sha Zukang in Washington DC, April 25, 2009, [http://www.un.org/esa/desa/ousg/statements/2009/20090425\\_IMFC.html](http://www.un.org/esa/desa/ousg/statements/2009/20090425_IMFC.html), (accessed December 20, 2009).

<sup>18</sup> Alvaro Vargas Llosa, "World Held Hostage to the Greenback," The Australian.com, October 16, 2009, <http://www.theaustralian.com.au/news/world/world-held-hostage-to-the-greenback/story-e6frg6ux-1225787250122> (accessed Oct 20, 2009).

<sup>19</sup> U.S. Department of Defense, *National Defense Budget Estimates for FY 2010*, updated June 2009, [http://comptroller.defense.gov/defbudget/fy2010/Green\\_Book\\_Final.pdf](http://comptroller.defense.gov/defbudget/fy2010/Green_Book_Final.pdf) (accessed December 6, 2009).

<sup>20</sup> This increase of 7.5% points is from an increase of 21.7% to 29.2% of the total budget, excepting interest payments. The domestic discretionary outlays during this same period decreased 3.7% points. This from: Richard Kogan, "Federal Spending, 2001 through 2008: Defense Is a Rapidly Growing Share of the Budget, While Domestic Appropriations Have Shrunk", Center on Budget and Budget Priorities, revised March 6, 2008, <http://www.cbpp.org/cms/index.cfm?fa=view&id=125> (accessed December 6, 2009).

<sup>21</sup> U.S. Department of Defense, *National Defense Budget Estimates for FY 2009*, i.

<sup>22</sup> Andrew Krepinevich, Jr., "The Pentagon's Wasting Assets, The Eroding Foundations of American Power," Foreign Affairs, <http://www.foreignaffairs.com/articles/65150/andrew-f-krepinevich-jr/the-pentagons-wasting-assets> (accessed August 26, 2009).

<sup>23</sup> Loren Thompson, "The People Problem: Personnel Costs Are Overwhelming the Pentagon." *Armed Forces Journal* No. 146 (September 2009): 24-26, 37-38.

<sup>24</sup> Andrew Kohut, remarks to the U.S. House Committee on Foreign Affairs; Subcommittee on International Organizations, Human Rights, and Oversight, "America's Image in the World: Findings from the Pew Global Attitudes Project," March 14, 2007, <http://pewglobal.org/commentary/display.php?AnalysisID=1019> (accessed December 6, 2009).

<sup>25</sup> Joseph Nye, "The Changing Nature of Power," in *Theory of War and Strategy Reader*, volume 1, Department of National Security and Strategy, (Carlisle:, U.S. Army War College, AY2009),

<sup>26</sup> Roger Altman, "The Great Crash, 2008, a Geopolitical Setback for the West," *Foreign Affairs*, January/ February 2009, <http://www.foreignaffairs.com/articles/63714/roger-c-altman/the-great-crash-2008> (accessed December 10, 2009)

<sup>27</sup> Matthew Burrows and Jennifer Burris write of the “democracy tax” in “Revisiting the Future: Geopolitical Effects of the Financial Crisis”, *Washington Quarterly*, 32, no. 2 (April 2009): 27 – 38, in Informaworld (accessed September 20, 2009). Fukuyama writes that democratic institutions often grow from free market societies as a mechanism to seek further recognition. Also, he supports the idea that to support the property rights gained in free markets, a law-based society is necessary; this requires democratic institutions. Francis Fukuyama, “Capitalism and Democracy: The Missing Link”, *Journal of Democracy* 3, no. 3, (July 1992): 101.

<sup>28</sup> George W. Bush, *The National Security Strategy of the United States* (Washington D.C.: The White House, March 2006), 27.

<sup>29</sup> John Lewis Gaddis defines Grand Strategy as the relationship between means and “large ends” in “What is Grand Strategy?” <http://www.duke.edu/web/agsp/grandstrategy/paper.pdf> (accessed January 30, 2010).

<sup>30</sup> Peter Feaver highlights the overall consistency of defacto American grand strategy in “Debating American Grand Strategy After Major War,” *Orbis* 53 no. 4 (Fall 2009): 547-552, in Wilson OmniFile (accessed December 26, 2009). Sarah Kreps reviews the international, bureaucratic, and public constraints on grand strategy development as well as the continuity in American strategy over successive administrations in “American Grand Strategy after Iraq,” *Orbis* 53 no. 4 (Fall 2009): 629-645, in Wilson OmniFile (accessed December 26, 2009).

<sup>31</sup> Feaver, “Debating American Grand Strategy After Major War,” 550.

<sup>32</sup> Gaddis, “What is Grand Strategy?”

<sup>33</sup> International Monetary Fund, “Money Matters: An IMF Exhibit—The Importance of Global Cooperation,” [http://www.imf.org/external/np/exr/center/mm/eng/mm\\_sc\\_03.htm](http://www.imf.org/external/np/exr/center/mm/eng/mm_sc_03.htm) (accessed December 29, 2009).

<sup>34</sup> James M. Boughton, “A New Bretton Woods?” *Finance and Development, A Quarterly of the IMF*, March 2009, <http://www.imf.org/external/pubs/ft/fandd/2009/03/boughton.htm> (accessed December 26, 2009).

<sup>35</sup> Zhou Xiaochuan, Reform the International Monetary System,” <http://www.pbc.gov.cn/english/detail.asp?col=6500&id=178> (accessed November 30, 2009)

<sup>36</sup> C. Fred Bergsten, “The Dollar and the Deficits, How Washington Can Prevent the Next Crisis,” *Foreign Affairs* 88, No 6 (November/December 2009): 20-22.

<sup>37</sup> SDRs have been advocated by the G-20 at Pittsburgh; that group allocated \$250 Billion to the IMF in response to the global crisis. The use of SDRs has also been supported by Zhou Xiaochuan, “Yet, the role of the SDR has not been put into full play due to limitations on its allocation and the scope of its uses. However, it serves as the light in the tunnel for the reform of the international monetary system.” From Xiaochuan, “Reform the International Monetary System.” Joseph E. Stiglitz puts forth the idea for a regional approach in “Death Cometh for the Greenback.” *National Interest*, no. 104 (November-December 2009): 50-59.

<sup>38</sup> Jonathan Weisman, "Inching Toward Creation of a Debt Commission," <http://blogs.wsj.com/washwire/2009/12/16/inching-toward-the-creation-of-a-debt-commission/>, (accessed Dec 29, 2009).

<sup>39</sup> Ambassador Bolton, UN Ambassador for President Bush, sought to centralize additional power for the five permanent members of the Security Council. This article refers to admission to the Human Rights Council and is indicative of the overall desire to limit power to the "perm 5." Lynch, Colum, "Bolton Plans to Restart Stalled Efforts to Restructure U.N.," *Washingtonpost.com*, January 2, 2006, <http://www.washingtonpost.com/wp-dyn/content/article/2006/01/02/AR2006010200100.html> (accessed Dec 31, 2009).

<sup>40</sup> United Nations, *A More Secure World: Our Shared Responsibility, Report of the High-level Panel on Threats, Challenges and Change, UN Report A/59/565*, (New York City: United Nations, December 2, 2004), 66-69, <http://www.globalpolicy.org/images/pdfs/1202report.pdf> (accessed Dec 31, 2009).

<sup>41</sup> Krepinevich, "Pentagon's Wasting Assets."

<sup>42</sup> Roy Kamphausen, David Lai and Andrew Scobell, Eds., *Beyond the Strait: PLA Missions Other Than Taiwan*, (Carlisle: Strategic Studies Institute, April 2009): 289.

<sup>43</sup> *Ibid*, 10.

<sup>44</sup> Although there are signs that China is transitioning to an internal consumption-based economy, it still is very much an export based nation. The latest statistics from the International Monetary Fund reflect this export based economy. In the last year recorded (2007), China has exports of \$1.218 trillion versus imports of \$956 billion. For comparison, the U.S. exports were 1.163 billion against imports of \$2.017. International Monetary Fund, *International Financial Statistics, 2008*, Vol. LXI, "Import and Export tables", 82-85.

<sup>45</sup> John P Geis II and Blaine Holt, "'Harmonious Society': Rise of the New China," *Strategic Studies Quarterly* 3 (Winter 2009): 75-94.

<sup>46</sup> Secretary Robert Gates, "Keynote Address, AUSA Annual Meeting DoD and the U.S. Army," *Army Magazine* 59, iss. 12, (Dec 2009): 35-38.

<sup>47</sup> John Pomfret, "U.S.-China Relations to Face Strains, Experts Say," *Washingtonpost.com*, January 3, 2010, <http://www.washingtonpost.com/wp-dyn/content/article/2010/01/02/AR2010010201751.html> (accessed January 3, 2010).

<sup>48</sup> For criticism of Secretary Clinton, see Jackson Diehl, "The Deflated Arab Hopes for Obama," November 30, 2009, at <http://www.washingtonpost.com/wpdyn/content/article/2009/11/29/AR2009112902011.html> (accessed December 1, 2009). For criticism of the president, see James Rubin, "The Principle of the Thing, How America's Commitment to Democratic Values is Waning in the Age of Obama," *Newsweek.com*, Dec 5 2009, <http://www.newsweek.com/id/225784/page/1> (accessed December 15, 2009).

<sup>49</sup> Pete Winn, "Congressman Wants to Know Why Geithner Contradicted Congressional Testimony in 24 Hours", March 27, 2009, <http://www.cnsnews.com/news/article/45705> (accessed Jan 5, 2010).



<sup>50</sup> Gaddis, "What is Grand Strategy?"

<sup>51</sup> Preamble to the U.S. Constitution

